

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Elk Horn-Kimballton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Tom Cannon	President	2005
Doug Parker	Board Member	2005
Tom Wall	Board Member	2006
Peggy Leader	Board Member	2007
Lori Robertson	Board Member (Resigned)	2007
Jerry Schrader	Board Member (Appointed)	2005
Board of Education (After September 2005 Election)		
Tom Cannon	President	2008
Doug Parker	Board Member	2008
Tom Wall	Board Member	2006
Peggy Leader	Board Member	2007
Jerry Schrader	Board Member	2007
School Officials		
J. Allan Hjelle	Superintendent	2006
Lori Robertson	District Secretary/ Treasurer	2006
Sue Seitz	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Elk Horn-Kimballton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Elk Horn-Kimballton Community School District, Elk Horn, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Elk Horn-Kimballton Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2006 on our consideration of the Elk Horn-Kimballton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Elk Horn-Kimballton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Elk Horn-Kimballton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,225,728 in fiscal 2005 to \$2,271,248 in fiscal 2006, while General Fund expenditures increased from \$2,319,319 in fiscal 2005 to \$2,407,056 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$506,843 in fiscal 2005 to a balance of \$371,035 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in unrestricted state grant revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The increase in revenues was not enough to offset the increase in expenditures guaranteeing the decrease in General Fund balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Elk Horn-Kimballton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Elk Horn-Kimballton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Elk Horn-Kimballton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Elk Horn-Kimballton Community School District Annual Financial Report

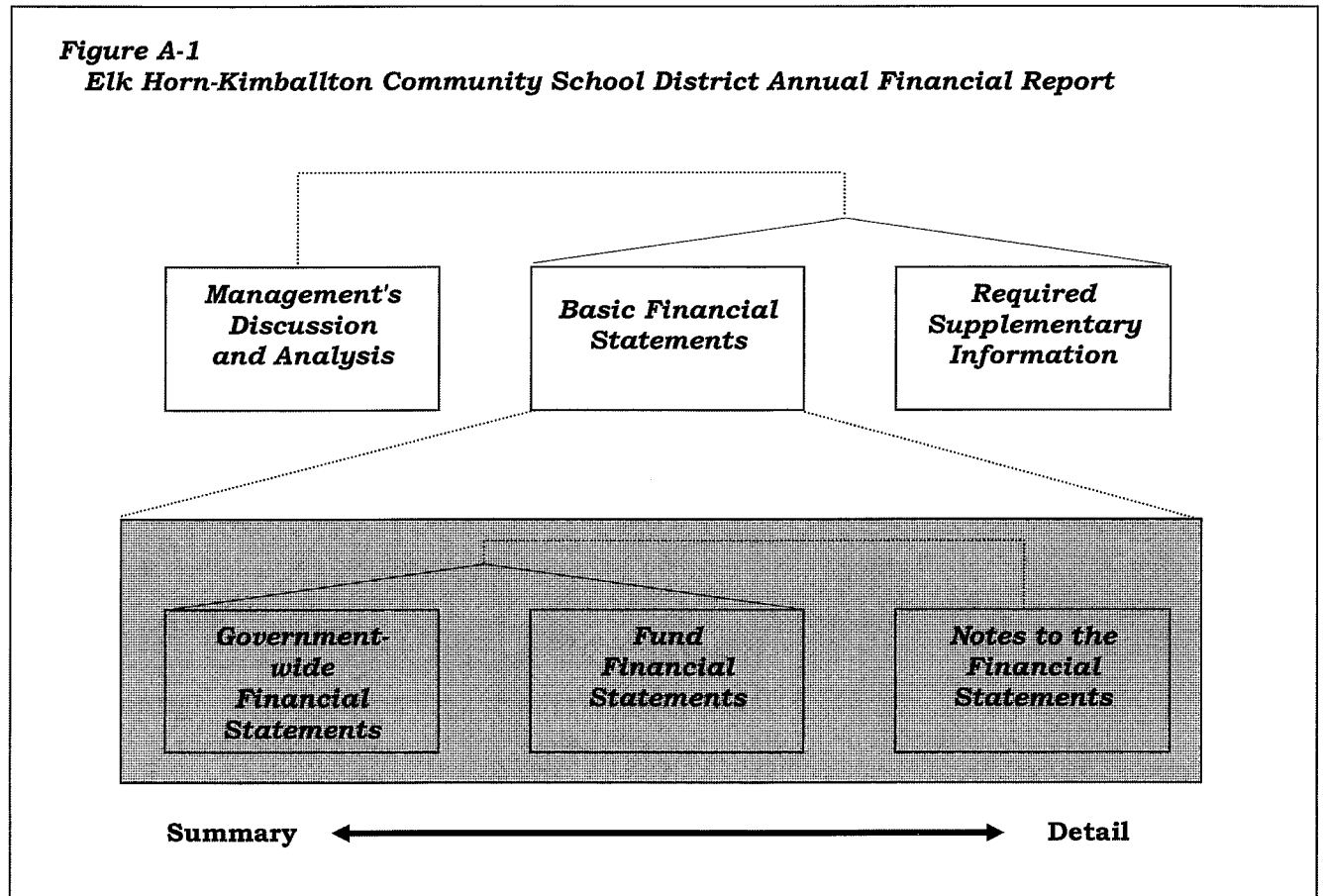


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at year end June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 1,757,724	1,748,045	34,870	35,046	1,792,594	1,783,091	0.53%
Capital assets	3,720,487	3,805,313	15,446	16,338	3,735,933	3,821,651	-2.24%
Total assets	5,478,211	5,553,358	50,316	51,384	5,528,527	5,604,742	-1.36%
Long-term obligations	1,502,464	1,583,400	0	0	1,502,464	1,583,400	-5.11%
Other liabilities	910,541	842,789	1,060	1,187	911,601	843,976	8.01%
Total liabilities	2,413,005	2,426,189	1,060	1,187	2,414,065	2,427,376	-0.55%
Net assets:							
Invested in capital assets, net of related debt	2,486,026	2,361,137	15,446	16,338	2,501,472	2,377,475	5.22%
Restricted	119,967	200,343	0	0	119,967	200,343	-40.12%
Unrestricted	459,213	565,689	33,810	33,859	493,023	599,548	-17.77%
Total net assets	\$ 3,065,206	3,127,169	49,256	50,197	3,114,462	3,177,366	-1.98%

The District's combined net assets decreased by 1.98%, or \$62,904, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$80,376, or 40.12% over the prior year. The decrease was primarily a result of increases in early retirement benefits payable by the District over the following years.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$77,638, or 17.77%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in total net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 239,157	228,369	72,278	69,442	311,435	297,811	4.57%
Operating grants and contributions and restricted interest	301,456	287,374	48,068	52,366	349,524	339,740	2.88%
General revenues:							
Property tax	927,659	980,219	0	0	927,659	980,219	-5.36%
Local option sales and services tax	158,822	122,129	0	0	158,822	122,129	30.04%
Unrestricted state grants	1,152,018	1,102,859	0	0	1,152,018	1,102,859	4.46%
Other	53,338	15,004	173	112	53,511	15,116	254.00%
Total revenues	2,832,450	2,735,954	120,519	121,920	2,952,969	2,857,874	3.33%
Program expenses:							
Governmental activities:							
Instructional	1,607,338	1,530,738	0	0	1,607,338	1,530,738	5.00%
Support services	953,195	886,897	0	0	953,195	886,897	7.48%
Non-instructional programs	4,200	6,702	121,460	119,204	125,660	125,906	-0.20%
Other expenses	329,680	284,338	0	0	329,680	284,338	15.95%
Total expenses	2,894,413	2,708,675	121,460	119,204	3,015,873	2,827,879	6.65%
Change in net assets before other financing uses	(61,963)	27,279	(941)	2,716	(62,904)	29,995	-309.71%
Other financing uses, net	0	(274,608)	0	0	0	(274,608)	100.00%
Changes in net assets	(61,963)	(247,329)	(941)	2,716	(62,904)	(244,613)	-74.28%
Net assets beginning of year	3,127,169	3,374,498	50,197	47,481	3,177,366	3,421,979	-7.15%
Net assets end of year	\$ 3,065,206	3,127,169	49,256	50,197	3,114,462	3,177,366	-1.98%

Property tax and unrestricted state grants account for 73.42% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.86 of the revenue from business type activities.

The District's total revenues were approximately \$3.0 million of which \$2.8 million was for governmental activities and less than \$0.2 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.33% increase in revenues and a 6.65% increase in expenses. The increase in revenues was due to increased local option sales and service tax and unrestricted state grant revenues the District received during fiscal 2006. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$2,832,450 and expenses were \$2,894,413.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,607,338	1,153,943
Support services	953,195	951,205
Non-instruction	4,200	4,200
Other expenses	329,680	244,452
Totals	<u>\$ 2,894,413</u>	<u>2,353,800</u>

- The cost financed by users of the District's programs was \$239,157.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$301,456.
- The net cost of governmental activities was financed with \$927,659 in property tax, \$158,822 in local option sales and services tax, \$1,152,018 in unrestricted state grants and \$16,760 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$120,519 and expenses were \$121,460. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Elk Horn-Kimballton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$772,128, below last year's ending fund balances of \$831,301. However, the primary reason for the decrease was the increase in General Fund expenditures could not offset the increase in General Fund revenues.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Decrease in property tax and federal grant revenue resulted in a decrease in revenues. The District's increase in General Fund expenditures ensured the decrease in the financial position of the District.
- The Capital Projects fund balance increased from \$122,415 in 2005 to \$218,846, due to an increase in local option sales and services tax revenue.
- The Management fund balance increased from \$44,314 to \$54,840, due to fund revenues doubling while expenditures were relatively stable as compared to fiscal year 2005.

-
- The Student Activity and Expendable Trust Fund combined balance decreased from \$58,935 in 2005, to \$56,005 in 2006, due to the increased expenditures from both funds.
 - The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$75,361 to \$45,785, due to decreased revenues during the year.
 - The Debt Service fund balance increased from \$23,433 in 2005 to \$25,617, due to anticipated payments of debt principal and interest.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$50,197 at June 30, 2005 to \$49,256 at June 30, 2006, representing an decrease of 1.87%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$21,273 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures function due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.29% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$118,674.

The original cost of the District's capital assets was \$6,019,654. Governmental funds account for \$5,927,238 with the remainder of \$92,416 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$15,969 at June 30, 2005, compared to \$19,280 reported at June 30, 2006. This increase resulted from new bleachers that were added during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 75,000	75,000	0	0	75,000	75,000	0.00%
Buildings	3,551,251	3,649,568	0	0	3,551,251	3,649,568	-2.77%
Land improvements	19,280	15,969	0	0	19,280	15,969	17.17%
Machinery and equipment	74,956	64,776	15,446	16,338	90,402	81,114	10.27%
Total	<u>\$ 3,720,487</u>	<u>3,805,313</u>	<u>15,446</u>	<u>16,338</u>	<u>3,735,933</u>	<u>3,821,651</u>	<u>-2.29%</u>

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$1,502,464 in general obligation and other liabilities. This represents a decrease of 5.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,465,000 at June 30, 2006.

The District also had total outstanding early retirement payable of \$37,464 to be paid out of the Special Revenue, Management Levy Fund at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	\$ 1,465,000	1,575,000	-7.0%
Early retirement	37,464	8,400	346.0%
Total	<u>\$ 1,502,464</u>	<u>1,583,400</u>	<u>-5.1%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tami Jacobsen, Board Secretary/Treasurer, Elk Horn-Kimballton Community School District, 4114 Madison Street, Elk Horn, Iowa, 51531.

BASIC FINANCIAL STATEMENTS

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 661,190	29,499	690,689
Receivables:			
Property tax:			
Delinquent	17,564	0	17,564
Succeeding year	894,810	0	894,810
Income surtax	88,979	0	88,979
Due from other governments	95,181	0	95,181
Inventories	0	5,371	5,371
Capital assets, net of accumulated depreciation(Note 4)	3,720,487	15,446	3,735,933
TOTAL ASSETS	5,478,211	50,316	5,528,527
LIABILITIES			
Salaries and benefits payable	73	0	73
Interest payable	13,924	0	13,924
Deferred revenue:			
Succeeding year property tax	894,810	0	894,810
Other	1,734	1,060	2,794
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	115,000	0	115,000
Early retirement	20,832	0	20,832
Portion due after one year:			
General obligation bonds	1,350,000	0	1,350,000
Early retirement	16,632	0	16,632
TOTAL LIABILITIES	2,413,005	1,060	2,414,065
NET ASSETS			
Investment in capital assets, net of related debt	2,486,026	15,446	2,501,472
Restricted for:			
Salary improvement program	801	0	801
Management levy	17,376	0	17,376
Physical plant and equipment levy	45,785	0	45,785
Other special revenue purposes	56,005	0	56,005
Unrestricted	459,213	33,810	493,023
TOTAL NET ASSETS	\$ 3,065,206	49,256	3,114,462

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 954,581	84,257	206,495	(663,829)	0	(663,829)
Special instruction	162,069	8,878	7,512	(145,679)	0	(145,679)
Other instruction	490,688	144,032	2,221	(344,435)	0	(344,435)
	<u>1,607,338</u>	<u>237,167</u>	<u>216,228</u>	<u>(1,153,943)</u>	<u>0</u>	<u>(1,153,943)</u>
Support services:						
Student services	41,975	0	0	(41,975)	0	(41,975)
Instructional staff services	116,993	0	0	(116,993)	0	(116,993)
Administration services	426,390	0	0	(426,390)	0	(426,390)
Operation and maintenance of plant services	245,713	0	0	(245,713)	0	(245,713)
Transportation services	122,124	1,990	0	(120,134)	0	(120,134)
	<u>953,195</u>	<u>1,990</u>	<u>0</u>	<u>(951,205)</u>	<u>0</u>	<u>(951,205)</u>
Non-instructional programs:						
Food service operations	4,200	0	0	(4,200)	0	(4,200)
Other expenditures:						
Facilities acquisitions	55,423	0	0	(55,423)	0	(55,423)
Long-term debt interest	89,441	0	0	(89,441)	0	(89,441)
AEA flowthrough	85,228	0	85,228	0	0	0
Depreciation(unallocated)*	99,588	0	0	(99,588)	0	(99,588)
	<u>329,680</u>	<u>0</u>	<u>85,228</u>	<u>(244,452)</u>	<u>0</u>	<u>(244,452)</u>
Total governmental activities	<u>2,894,413</u>	<u>239,157</u>	<u>301,456</u>	<u>(2,353,800)</u>	<u>0</u>	<u>(2,353,800)</u>
Business-Type activities:						
Non-instructional programs:						
Nutrition services	121,460	72,278	48,068	0	(1,114)	(1,114)
Total business-type activities	<u>121,460</u>	<u>72,278</u>	<u>48,068</u>	<u>0</u>	<u>(1,114)</u>	<u>(1,114)</u>
Total	<u>\$ 3,015,873</u>	<u>311,435</u>	<u>349,524</u>	<u>(2,353,800)</u>	<u>(1,114)</u>	<u>(2,354,914)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 738,203	0	738,203
Debt services				135,871	0	135,871
Capital outlay				53,585	0	53,585
Local option sales and service tax				158,822	0	158,822
Unrestricted state grants				1,152,018	0	1,152,018
Unrestricted investment earnings				16,760	173	16,933
Other				36,578	0	36,578
Total general revenues				<u>2,291,837</u>	<u>173</u>	<u>2,292,010</u>
Changes in net assets				(61,963)	(941)	(62,904)
Net assets beginning of year				<u>3,127,169</u>	<u>50,197</u>	<u>3,177,366</u>
Net assets end of year				<u>\$ 3,065,206</u>	<u>49,256</u>	<u>3,114,462</u>

* This amount excludes the depreciation that is included
in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 314,696	168,585	177,909	661,190
Receivables:				
Property tax				
Delinquent	13,226	0	4,338	17,564
Succeeding year	674,223	0	220,587	894,810
Income surtax	59,319	0	29,660	88,979
Due from other governments	44,920	50,261	0	95,181
TOTAL ASSETS	\$ 1,106,384	218,846	432,494	1,757,724
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and benefits payable	\$ 73	0	0	73
Deferred revenue:				
Succeeding year property tax	674,223	0	220,587	894,810
Income surtax	59,319	0	29,660	88,979
Other	1,734	0	0	1,734
Total liabilities	735,349	0	250,247	985,596
Fund balances:				
Reserved for:				
Debt service	0	0	25,617	25,617
Salary improvement program	801	0	0	801
Unreserved:				
Undesignated	370,234	218,846	156,630	745,710
Total fund balances	371,035	218,846	182,247	772,128
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,106,384	218,846	432,494	1,757,724

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$ 772,128
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	3,720,487
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(13,924)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	88,979
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,502,464)</u>
Net assets of governmental activities (page 14)	<u><u>\$ 3,065,206</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 687,972	158,822	239,687	1,086,481
Tuition	82,357	0	0	82,357
Other	50,666	3,009	159,684	213,359
State sources	1,352,854	0	0	1,352,854
Federal sources	97,399	0	0	97,399
Total revenues	<u>2,271,248</u>	<u>161,831</u>	<u>399,371</u>	<u>2,832,450</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	955,296	0	1,500	956,796
Special instruction	162,069	0	0	162,069
Other instruction	336,815	0	153,873	490,688
	<u>1,454,180</u>	<u>0</u>	<u>155,373</u>	<u>1,609,553</u>
Support services:				
Student services	41,975	0	0	41,975
Instructional staff services	91,409	0	25,584	116,993
Administration services	413,472	0	0	413,472
Operation and maintenance of plant services	215,192	0	33,136	248,328
Transportation services	105,600	0	5,728	111,328
	<u>867,648</u>	<u>0</u>	<u>64,448</u>	<u>932,096</u>
Non-instructional programs:				
Food service operations	0	0	4,200	4,200
Other expenditures:				
Facilities acquisitions	0	400	59,605	60,005
Long-term debt:				
Principal	0	0	110,000	110,000
Interest and fiscal charges	0	0	90,541	90,541
AEA flowthrough	85,228	0	0	85,228
	<u>85,228</u>	<u>400</u>	<u>260,146</u>	<u>345,774</u>
Total expenditures	<u>2,407,056</u>	<u>400</u>	<u>484,167</u>	<u>2,891,623</u>
Excess(deficiency) of revenues over(under) expenditures	(135,808)	161,431	(84,796)	(59,173)
Other financing sources(uses):				
Transfers in	0	0	65,000	65,000
Transfers out	0	(65,000)	0	(65,000)
Total other financing sources(uses)	<u>0</u>	<u>(65,000)</u>	<u>65,000</u>	<u>0</u>
Net change in fund balances	(135,808)	96,431	(19,796)	(59,173)
Fund balance beginning of year	<u>506,843</u>	<u>122,415</u>	<u>202,043</u>	<u>831,301</u>
Fund balance end of year	<u>\$ 371,035</u>	<u>218,846</u>	<u>182,247</u>	<u>772,128</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ (59,173)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year, is as follows:

Capital expenditures	\$ 30,802	
Depreciation expense	(115,628)	(84,826)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	110,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	1,100
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	(29,064)
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Changes in net assets of governmental activities (page 15)	\$ (61,963)
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 29,499
Inventories	5,371
Capital assets, net of accumulated depreciation(Note 4)	<u>15,446</u>
TOTAL ASSETS	<u>50,316</u>
LIABILITIES	
Deferred revenues:	
Other	<u>1,060</u>
TOTAL LIABILITES	<u>1,060</u>
NET ASSETS	
Investment in capital assets	15,446
Unrestricted	<u>33,810</u>
TOTAL NET ASSETS	<u>\$ 49,256</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 72,278</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	39,775
Benefits	17,343
Services	3,274
Supplies	58,022
Depreciation	3,046
TOTAL OPERATING EXPENSES	<u>121,460</u>
OPERATING LOSS	<u>(49,182)</u>
NON-OPERATING REVENUES:	
Interest income	173
State sources	2,324
Federal sources	45,744
TOTAL NON-OPERATING REVENUES	<u>48,241</u>
Change in net assets	(941)
Net assets at beginning of year	<u>50,197</u>
Net assets end of year	<u><u>\$ 49,256</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 71,696
Cash received from miscellaneous operating activities	455
Cash payments to employees for services	(57,118)
Cash payments to suppliers for goods or services	(51,649)
Net cash used in operating activities	<u>(36,616)</u>
Cash flows from non-capital financing activities:	
State grants received	2,324
Federal grants received	36,132
Net cash provided by non-capital financing activities	<u>38,456</u>
Cash flows from investing activities:	
Interest on investments	<u>173</u>
Cash flows from capital financing activities:	
Purchase of assets	<u>(2,154)</u>
Net decrease in cash and cash equivalents	(141)
Cash and cash equivalents at beginning of year	<u>29,640</u>
Cash and cash equivalents at end of year	<u><u>\$ 29,499</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (49,182)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,612
Depreciation	3,046
Decrease in inventories	35
Decrease in deferred revenue	(127)
Net cash used in operating activities	<u><u>\$ (36,616)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 29,499</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$9,612.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Private Purpose Trust Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 364,471	34,308
TOTAL ASSETS	<u>364,471</u>	<u>34,308</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to other groups	<u>0</u>	<u>34,308</u>
Net assets:		
Fund balances:		
Reserved for scholarships	364,471	0
TOTAL NET ASSETS	<u>\$ 364,471</u>	<u>0</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
ADDITIONS:	
Local sources:	
Interest income	\$ 3,186
Donations	262,883
TOTAL ADDITIONS	<u>266,069</u>
DEDUCTIONS:	
Instruction:	
Scholarship awarded	<u>1,225</u>
Change in net assets	264,844
Net assets beginning of year	<u>99,627</u>
Net assets end of year	<u><u>\$ 364,471</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Elk Horn-Kimballton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Elk Horn and Kimballton, Iowa, and the predominate agricultural territory in Cass, Audubon and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Elk Horn-Kimballton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Elk Horn-Kimballton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cass, Audubon and Shelby County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the other expenditures function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the district in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2006, the District had investments in certificates of deposit maturing in over one year as follows:

	Fair Value
Certificates of Deposit	\$ 242,883

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 65,000

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 75,000	0	0	75,000
Total capital assets not being depreciated	75,000	0	0	75,000
Capital assets being depreciated:				
Buildings	5,064,894	0	0	5,064,894
Land improvements	20,848	4,582	0	25,430
Machinery and equipment	735,694	26,220	0	761,914
Total capital assets being depreciated	5,821,436	30,802	0	5,852,238
Less accumulated depreciation for:				
Buildings	1,415,326	98,317	0	1,513,643
Land improvements	4,879	1,271	0	6,150
Machinery and equipment	670,918	16,040	0	686,958
Total accumulated depreciation	2,091,123	115,628	0	2,206,751
Total capital assets being depreciated, net	3,730,313	(84,826)	0	3,645,487
Governmental activities capital assets, net	\$ 3,805,313	(84,826)	0	3,720,487
Business-type activities:				
Machinery and equipment	\$ 90,262	2,154	0	92,416
Less accumulated depreciation	73,924	3,046	0	76,970
Business-type activities capital assets, net	\$ 16,338	(892)	0	15,446

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 4,590
Support services:	
Operation and maintenance of plant	654
Transportation	10,796
	<u>16,040</u>
Unallocated depreciation	<u>99,588</u>
Total governmental activities depreciation expense	<u>\$ 115,628</u>
Business-type activities:	
Food services	<u>\$ 3,046</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,575,000	0	110,000	1,465,000	115,000
Early retirement	8,400	33,264	4,200	37,464	20,832
Total	<u>\$ 1,583,400</u>	<u>33,264</u>	<u>114,200</u>	<u>1,502,464</u>	<u>135,832</u>

General Obligation

Details of the District's June 30, 2006 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond issue dated May 1, 2000	Interest Rate	Principal	Interest	Total
2007	6.000 %	\$	115,000	83,541	198,541
2008	6.000		120,000	76,641	196,641
2009	6.000		130,000	69,441	199,441
2010	5.625		105,000	61,641	166,641
2011	5.300		75,000	55,735	130,735
2012	5.400		80,000	51,760	131,760
2013	5.500		85,000	47,440	132,440
2014	5.600		90,000	42,765	132,765
2015	5.600		95,000	37,725	132,725
2016	5.600		100,000	32,405	132,405
2017	5.600		110,000	26,805	136,805
2018	5.700		115,000	20,645	135,645
2019	5.700		120,000	14,090	134,090
2020	5.800		125,000	7,250	132,250
Total		\$	<u>1,465,000</u>	<u>627,884</u>	<u>2,092,884</u>

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives paid by the District include the premiums for a single health insurance coverage policy, with a maximum of \$350 per month.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$84,237, \$76,680, and \$73,338 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, life and long-term disability. District contributions to ISEBA for the year ended June 30, 2006 were \$168,977.

Elk Horn-Kimballton Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$85,228 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, disbursements in the other expenditures function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,382,197	72,451	1,454,648	1,410,765	1,410,765	43,883
Intermediate sources	0	0	0	8,500	8,500	(8,500)
State sources	1,352,854	2,324	1,355,178	1,371,931	1,371,931	(16,753)
Federal sources	97,399	45,744	143,143	140,500	140,500	2,643
Total revenues	2,832,450	120,519	2,952,969	2,931,696	2,931,696	21,273
Expenditures:						
Instruction	1,609,553	0	1,609,553	1,630,000	1,630,000	20,447
Support services	932,096	0	932,096	1,086,000	1,086,000	153,904
Non-instructional programs	4,200	121,460	125,660	154,500	154,500	28,840
Other expenditures	345,774	0	345,774	292,669	292,669	(53,105)
Total expenditures	2,891,623	121,460	3,013,083	3,163,169	3,163,169	150,086
Excess(deficiency) of revenues over(under) expenditures	(59,173)	(941)	(60,114)	(231,473)	(231,473)	171,359
Other financing sources, net	0	0	0	6,000	6,000	(6,000)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(59,173)	(941)	(60,114)	(225,473)	(225,473)	165,359
Balance beginning of year	831,301	50,197	881,498	681,773	681,773	199,725
Balance end of year	\$ 772,128	49,256	821,384	456,300	456,300	365,084

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, disbursements in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 53,767	44,933	45,381	11,072	155,153	22,756	177,909
Receivables:							
Property tax:							
Current year delinquent	1,073	0	404	0	1,477	2,861	4,338
Succeeding year	65,000	0	21,745	0	86,745	133,842	220,587
Income surtax	0	0	29,660	0	29,660	0	29,660
TOTAL ASSETS	\$ 119,840	44,933	97,190	11,072	273,035	159,459	432,494
LIABILITIES AND FUND BALANCES							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 65,000	0	21,745	0	86,745	133,842	220,587
Income surtax	0	0	29,660	0	29,660	0	29,660
	65,000	0	51,405	0	116,405	133,842	250,247
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	25,617	25,617
Unreserved:							
Undesignated	54,840	44,933	45,785	11,072	156,630	0	156,630
Total fund balances	54,840	44,933	45,785	11,072	156,630	25,617	182,247
TOTAL LIABILITIES AND FUND BALANCES	\$ 119,840	44,933	97,190	11,072	273,035	159,459	432,494

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Fund						Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 50,231	0	53,585	0	103,816	135,871	239,687
Other	3,359	151,133	2,028	1,310	157,830	1,854	159,684
TOTAL REVENUES	53,590	151,133	55,613	1,310	261,646	137,725	399,371
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	0	0	0	1,500	1,500	0	1,500
Other instruction	0	153,873	0	0	153,873	0	153,873
Support services:							
Instructional staff services	0	0	25,584	0	25,584	0	25,584
Operation and maintenance of plant services	33,136	0	0	0	33,136	0	33,136
Transportation services	5,728	0	0	0	5,728	0	5,728
Non-instructional							
Food service operations	4,200	0	0	0	4,200	0	4,200
Other expenditures:							
Facilities acquisition	0	0	59,605	0	59,605	0	59,605
Long-term debt:							
Principal	0	0	0	0	0	110,000	110,000
Interest and fiscal charges	0	0	0	0	0	90,541	90,541
TOTAL EXPENDITURES	43,064	153,873	85,189	1,500	283,626	200,541	484,167
Excess(deficiency) of revenues over(under) expenditures	10,526	(2,740)	(29,576)	(190)	(21,980)	(62,816)	(84,796)
Other financing sources:							
Transfers in	0	0	0	0	0	65,000	65,000
Excess(deficiency) of revenues and other financing sources over(under) expenditures	10,526	(2,740)	(29,576)	(190)	(21,980)	2,184	(19,796)
Fund balance beginning of year	44,314	47,673	75,361	11,262	178,610	23,433	202,043
Fund balance end of year	\$ 54,840	44,933	45,785	11,072	156,630	25,617	182,247

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech/drama	\$ 805	1,956	782	1,979
Vocal music	361	867	462	766
Instrumental music	808	667	659	816
Athletics	30,649	11,802	18,356	24,095
Boys/girls golf	0	2,683	2,683	0
Boys basketball	0	9,514	9,514	0
Football	0	8,982	8,982	0
Baseball	0	8,966	8,966	0
Boys track	0	3,163	3,163	0
Wrestling	0	1,454	1,454	0
Girls basketball	0	5,291	5,291	0
Volleyball	0	7,952	7,952	0
Softball	0	3,677	3,677	0
Girls track	0	2,747	2,747	0
Miscellaneous	0	373	373	0
Interest	0	346	0	346
Change	125	150	175	100
Vocational education resale	0	814	814	0
8th grade	28	286	305	9
Freshman class	10	28	10	28
Sophomore class	113	10	113	10
Junior class	841	8,305	8,357	789
Senior class	0	4,203	4,203	0
Science club	170	0	0	170
Elementary special education	19	0	0	19
Book fair	518	1,318	1,284	552
Projects	4,458	2,529	2,249	4,738
M.S. TAG	157	0	0	157
DC trip account	109	0	0	109
Art club	231	50	0	281
COOP staff development	483	0	483	0
Annual	1,574	7,115	6,792	1,897
Cheerleaders	1,252	6,510	6,909	853
FFA	696	25,072	23,338	2,430
National honor society	625	768	1,009	384
Student council	2,190	1,818	1,455	2,553
Elementary student council	251	644	307	588
Leadership	980	3,613	3,549	1,044
Elementary resale	0	2,078	2,078	0
Athletic concession	0	11,462	11,462	0
District football	220	0	0	220
Preschool	0	3,920	3,920	0
Total	\$ 47,673	151,133	153,873	44,933

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 EXPENDABLE TRUST FUND
 JUNE 30, 2006

	Larson Scholarship	Science Fair	Total
ASSETS			
Cash and pooled investments	\$ 10,603	469	11,072
TOTAL ASSETS	10,603	469	11,072
LIABILITIES AND FUND BALANCES			
Liabilities	\$ 0	0	0
Fund balances:			
Unreserved, undesignated	10,603	469	11,072
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,603	469	11,072

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - EXPENDABLE TRUST FUND
 YEAR ENDED JUNE 30, 2006

	Larson Scholarship	Science Fair	Total
REVENUES:			
Local sources:			
Interest on investments	\$ 297	13	310
Donations	0	1,000	1,000
TOTAL REVENUES	297	1,013	1,310
EXPENDITURES;			
Instruction:			
Services	0	1,500	1,500
TOTAL EXPENDITURES	0	1,500	1,500
Excess(deficiency) of revenues over(under) expenditures	297	(487)	(190)
Fund balance beginning of year	10,306	956	11,262
Fund balance end of year	\$ 10,603	469	11,072

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Washington DC Trip				
ASSETS:				
Cash and pooled investments	\$ 14,013	37,686	17,391	34,308
LIABILITIES:				
Due to other groups	\$ 14,013	37,686	17,391	34,308

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 1,086,481	1,072,688	1,075,598	1,009,188
Tuition	82,357	71,362	64,620	44,888
Other	213,359	172,011	189,199	185,103
Intermediate sources	0	3,654	3,724	4,076
State sources	1,352,854	1,293,271	1,258,812	1,346,245
Federal sources	97,399	93,308	142,586	65,327
Total	\$ 2,832,450	2,706,294	2,734,539	2,654,827
Expenditures:				
Instruction:				
Regular instruction	\$ 956,796	896,033	1,041,208	986,592
Special instruction	162,069	224,310	200,496	192,647
Other instruction	490,688	413,418	316,805	316,295
Support services:				
Student services	41,975	48,006	49,912	49,164
Instructional staff services	116,993	128,037	51,224	57,703
Administration services	413,472	345,495	320,360	312,188
Operation and maintenance of plant services	248,328	243,046	234,692	226,987
Transportation services	111,328	165,618	90,764	76,936
Other support services	0	6,927	21,345	15,601
Non-instructional programs:				
Food service operations	4,200	6,702	6,156	5,893
Other expenditures:				
Facilities acquisitions	60,005	22,093	42,191	108,623
Long Term Debt:				
Principal	110,000	100,000	95,000	90,000
Interest	90,541	96,141	101,841	107,241
AEA flow-through	85,228	84,404	86,147	93,721
Total	\$ 2,891,623	2,780,230	2,658,141	2,639,591

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Elk Horn-Kimballton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Elk Horn-Kimballton Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elk Horn-Kimballton Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elk Horn-Kimballton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do

not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Elk Horn-Kimballton Community School District and other parties to whom Elk Horn-Kimballton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Elk Horn-Kimballton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 28, 2006

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-06 Student Activity Fund - During our audit, we noted that interest in the Student Activity Fund was not allocated out to individual accounts in the Activity Fund.

Recommendation - Interest should be allocated to the individual funds in the Student Activity Fund at least once a year.

Response - The interest will be allocated to individual accounts.

Conclusion - Response accepted.

I-C-06 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with Department of Labor requirements on wage per hour contracts, the District needs to keep track of hours worked by coaches who are non-certified staff to determine if they are paid at least minimum wage.

Response - Coaches who are non-certified staff will be completing logs to track the hours worked.

Conclusion - Response accepted.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the certified budget amount in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget in the future as necessary.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Lori Robertson, Board Secretary Employee of County State Bank	Services	-

Recommendation - The Business Manager, who is an employee of the bank, should be noted. The Business Manager does not vote and this would appear to eliminate any benefit to her personally. The District should consider obtaining a legal opinion.

Response - This person no longer works for the District.

Conclusion - Response accepted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.